

STATE BANK OF INDIA - SRI LANKA BRANCH

**FINANCIAL STATEMENTS
31 MARCH 2023**



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Independent auditor's report

To the management of State Bank of India – Sri Lanka Operations

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of State Bank of India – Sri Lanka Operations (“the Bank”) as at 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 March 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka (“CA Sri Lanka Code of Ethics”). We have fulfilled our other ethical responsibilities in accordance with the CA Sri Lanka Code of Ethics.

Other information

Management is responsible for the other information. The other information comprises the supplemental Basel III disclosures, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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Independent auditor's report

To the management of State Bank of India – Sri Lanka Operations (Contd)

Report on the audit of the financial statements (Contd)

Other information (Contd)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



Independent auditor's report

To the management of State Bank of India – Sri Lanka Operations (Contd)

Report on the audit of the financial statements (Contd)

Auditor's responsibilities for the audit of the financial statements (Contd)

as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in blue ink, appearing to read 'R. Anura Kumara', is written over a horizontal line.

CHARTERED ACCOUNTANTS

COLOMBO

30 June 2023

STATE BANK OF INDIA - SRI LANKA BRANCH**Statement of profit or loss and other comprehensive income**

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Notes	Year ended 31 March	
		2023	2022
Interest income	24	3,933,026,198	1,350,987,069
Interest expense	25	(781,380,664)	(275,447,600)
Net interest income		3,151,645,534	1,075,539,469
Fees and commission income	26	418,969,788	236,373,358
Other operating income	27	479,948,633	353,421,704
Total operating income		4,050,563,955	1,665,334,531
Impairment reversals / (charges) and other losses	28	19,390,254	(24,109,157)
Net operating income		4,069,954,209	1,641,225,374
Personnel expenses	29	(240,730,562)	(171,086,864)
Other operating expenses	30.1	(231,774,742)	(174,176,101)
Depreciation of property plant and equipment and ROU assets	30.2	(67,206,219)	(55,416,226)
Loss on disposal of debt instruments held at FVOCI reclassified upon derecognition to profit or loss for the period		(4,949,396)	-
Total operating expenses		(544,660,919)	(400,679,191)
Operating profit before taxes and levies on financial services		3,525,293,290	1,240,546,183
Taxes and levies on financial services	31	(573,866,977)	(218,469,471)
Profit before income tax		2,951,426,313	1,022,076,712
Income tax expense	31	(797,861,692)	(363,908,362)
Profit for the year		2,153,564,621	658,168,350
Other comprehensive income			
Other comprehensive income to be reclassified to profit and loss in subsequent periods			
Exchange differences on translation of foreign currency capital & reserves	21	1,009,428,261	2,711,490,249
Net loss on instruments at fair value through other comprehensive income		-	(7,227,587)
Tax expense relating to items that will be reclassified to profit or loss		-	1,734,621
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Actuarial gain / (loss) on retirement benefit obligation	17	52,418,767	69,952,685
Tax expense relating to items that will not be reclassified to profit or loss		(15,725,630)	(16,788,644)
Other comprehensive income for the year net of tax		1,046,121,398	2,759,161,324
Total comprehensive income for the year		3,199,686,019	3,417,329,674

The notes to the financial statements from pages 8 to 57 form an integral part of these financial statements.



STATE BANK OF INDIA - SRI LANKA BRANCH

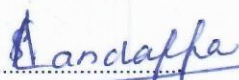
Statement of financial position

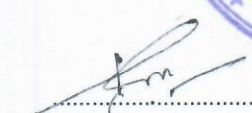
(all amounts in Sri Lanka Rupees unless otherwise stated)


	Notes	Year ended 31 March	
		2023	2022
Assets			
Cash and cash equivalents	4	5,345,364,167	4,933,967,383
Balances with Central Bank of Sri Lanka	5	5,927,046,529	9,283,299,968
Placements with financial institutions	6	19,129,513,793	14,171,082,690
Financial assets at amortised cost			
- Loans and advances to customers	7	7,168,523,424	21,364,051,213
- Debt and other instruments	8	260,000,000	259,996,172
Financial assets measured at fair value through other comprehensive income	9	530,000	1,668,710,573
Other assets	10	15,970,993	34,394,879
Right of Use (RoU) asset	12	21,583,338	24,842,845
Property, plant and equipment	11	581,531,093	612,055,430
Deferred tax assets	18	26,703,821	34,266,040
Total assets		38,476,767,158	52,386,667,193
Liabilities			
Due to banks	13	999,070,953	949,473,581
Financial liabilities at amortised cost -Due to customers	14	15,104,072,704	20,484,867,856
Financial liabilities measured at amortised cost - other borrowings	15	2,457,831,328	14,733,167,038
Other liabilities	16	286,372,363	314,059,783
Income tax Liability	31.2	743,245,935	178,398,114
Lease liability	12	24,358,929	25,273,168
Employee benefit liability	17	170,029,258	214,277,380
Total liabilities		19,784,981,470	36,899,516,920
Equity			
Assigned capital	19	2,442,827,454	2,442,827,454
Statutory reserve fund	20	551,928,828	450,954,201
Foreign Currency Translation Reserve	21	5,644,246,189	4,634,817,928
OCI reserve	23	-	(4,949,396)
Retained earnings	22	10,052,783,217	7,963,500,086
Total equity		18,691,785,688	15,487,150,273
Total liabilities and equity		38,476,767,158	52,386,667,193
Contingent liabilities and commitments	36.4.1	47,131,730,550	48,917,913,127

The management is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the management by:


 Shalini Rodrigo
 Assistant Manager - Operations
 30-Jun-23


 R K Jha
 Country Head
 30-Jun-23



The notes to the financial statements from pages 8 to 57 form an integral part of these financial statements.

STATE BANK OF INDIA - SRI LANKA BRANCH

Statement of changes in equity

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Assigned capital	Statutory reserve fund	Funds from central office	Support Funds	Foreign Currency translation reserve	OCI Reserve	Retained earnings	Total
As at 31 March 2021	1,566,460,000	402,040,194	831,951,309	44,416,145	1,923,327,679	543,570	7,301,081,702	12,069,820,599
Profit for the year	-	-	-	-	-	-	658,168,350	658,168,350
Other comprehensive income	-	-	-	-	2,711,490,249	(5,492,966)	53,164,041	2,759,161,324
Transfer to statutory reserve fund	-	48,914,007	-	-	-	-	(48,914,007)	-
As at 31 March 2022	1,566,460,000	450,954,201	831,951,309	44,416,145	4,634,817,928	(4,949,396)	7,963,500,086	15,487,150,273
Profit for the year	-	-	-	-	-	4,949,396	2,153,564,621	2,158,514,017
Other comprehensive income	-	-	-	-	1,009,428,261	-	36,693,137	1,046,121,398
Transfer to statutory reserve fund	-	100,974,627	-	-	-	-	(100,974,627)	-
As at 31 March 2023	1,566,460,000	551,928,828	831,951,309	44,416,145	5,644,246,189	-	10,052,783,217	18,691,785,688

The notes to the financial statements from pages 8 to 57 form an integral part of these financial statements.



STATE BANK OF INDIA - SRI LANKA BRANCH**Statement of Cash Flows**

(all amounts in Sri Lanka Rupees unless otherwise stated)

	Note	Year ended 31 March	
		2023	2022
Cash flows from operating activities			
Net cash flow from operating activities before income tax	32.1	3,037,182,379	1,131,585,194
Operating profit before changes in operating assets and liabilities			
Decrease / (Increase) in operating assets	32.2	12,650,127,983	(12,335,082,833)
(Decrease) / Increase in operating liabilities	32.3	(17,634,220,910)	10,538,198,452
Tax paid		(250,832,433)	(283,530,506)
Interest paid		(53,838)	(154,942)
Gratuity paid		(28,880,775)	(21,771,766)
Net cash flow used in operating activities		<u>(2,226,677,594)</u>	<u>(970,756,401)</u>
Cash flows from investing activities			
Purchase of property plant and equipment	11	(34,253,390)	(3,808,760)
Changes in financial investments - Net		1,667,028,941	654,117,529
Net cash flow generated from investing activities		<u>1,632,775,551</u>	<u>650,308,769</u>
Cash flow from financing activities			
Payments to lease creditor - Principal		(4,129,434)	(2,773,320)
Net cash flow used in financing activities		<u>(4,129,434)</u>	<u>(2,773,320)</u>
Exchange differences on translations of foreign currency capital and foreign currency reserves		1,009,428,261	2,736,458,999
Net increase in cash and cash equivalents		411,396,784	2,413,238,047
Cash and cash equivalents at the beginning of the year		<u>4,933,967,383</u>	<u>2,520,729,336</u>
Cash and cash equivalents at the end of the year		<u>5,345,364,167</u>	<u>4,933,967,383</u>

The notes to the financial statements from pages 8 to 57 form an integral part of these financial statements.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

(all amounts in Sri Lanka Rupees unless otherwise stated)

1 Corporate information

1.1 General

State Bank of India - Sri Lanka Operations ('the Bank') is a licensed commercial bank governed by Central Bank of Sri Lanka. It is a foreign branch of State Bank of India, which is incorporated in India. The registered office of the Bank is located at No. 16, Sir baron Jayathilake Mawatha, Colombo 01.

1.2 Principal activities and nature of operations

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, corporate and retail banking, personal financial services, foreign currency operations, trade services, dealing in government securities and other related services.

1.3 Date of authorisation for issue

The Financial Statements of State Bank of India – Sri Lanka Operations for the year ended 31 March 2023 were authorised for issue by the local management on 30 June 2023.

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards ("SLFRS"s), Sri Lanka Accounting Standards ("LKAS"s), relevant interpretations of the Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC"). Sri Lanka Accounting Standards further comprises of Statements of Recommended Practices (SoRPs), Statements of Alternate Treatments (SoATs) and Financial Reporting Guidelines issued by the Institute of Chartered Accountants of Sri Lanka. These financial statements have been prepared under the historical cost convention except for financial assets and liabilities which are measured at fair value. The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Bank's financial statements are disclosed in notes to the financial statements.

The following amendments to the Sri Lanka Accounting Standards that are relevant for the preparation of the Bank's financial statements have been adopted by the Bank (a) new standards and amendments that are effective for the first time for periods commencing on or after 1 January 2022 (i.e. year ending 31 December 2022) and (b) forthcoming requirements, being standards and amendments that will become effective on or after 1 January 2022.

(a) New standards and amendments – applicable 1 January 2022

The Bank has applied the following standards and amendments for the first time for their annual reporting periods commencing 1 January 2022.

(i) Amendment to LKAS 16, Property, Plant and Equipment

Proceeds before intended use –this amendment prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

(a) New standards and amendments – applicable 1 January 2022 (contd)

(ii) Amendments to SLFRS 3, Reference to the Conceptual Framework

Minor amendments were made to SLFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of LKAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

(iii) Amendments to LKAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendment to LKAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

(iv) Annual Improvements to SLFRS Standards 2018–2020

The following improvements were finalised in May 2020:

- SLFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- SLFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- SLFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same SLFRS 1 exemption.
- LKAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under LKAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Most of the amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

These Standard and amendments are effective for the annual periods beginning on or after 1 January 2022.

(b) New standards and amendments issued but not effective or early adopted in 2022

The following standards and interpretations had been issued by IASB, but not mandatory for annual reporting periods ending 31 December 2022. Further, the Bank has not early adopted these new standards and/or amendments.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

(b) New standards and amendments issued but not effective or early adopted in 2022 (contd)

(i) SLFRS 17, 'Insurance contracts'

SLFRS 17 was issued in May 2017 as replacement for SLFRS 4 Insurance Contracts. It requires a current measurement model where estimates are remeasured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under SLFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying SLFRS 17 to investors and others. The amendments also deferred the application date similar to SLFRS 17. This amendment will be effective from 01 January 2025 in Sri Lanka.

Further amendments made in December 2021 added a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of SLFRS 17. The classification overlay applies to all financial assets, including those held in respect of activities not connected to contracts within the scope of SLFRS 17. It allows those assets to be classified in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of SLFRS 9. The classification can be applied on an instrument-by-instrument basis. This standard will be effective from 01 January 2025 in Sri Lanka.

(ii) Reference to the Conceptual Framework – Amendments to IFRS 3

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

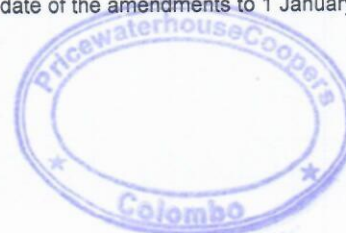
(iii) Classification of Liabilities as Current or Non-current – Amendments to LKAS 1

The narrow-scope amendments to LKAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what LKAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

(b) New standards and amendments issued but not effective or early adopted in 2022 (contd)

(iv) Disclosure Initiative: Accounting Policies - Amendments to LKAS 1

The amendments to LKAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendments to LKAS 1 will be effective for annual reporting periods beginning on or after 1 January 2023.

(v) Definition of Accounting Estimates (Amendments to LKAS 8)

The amendments introduced the definition of accounting estimates and included other amendments to LKAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after 1 January 2023.

(vi) Amendment to LKAS 12 – Deferred tax related to assets and liabilities arising from a single transaction

LKAS 12 Income Taxes specifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future. In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations—transactions for which companies recognise both an asset and a liability.

The amendments clarify that the exemption does not apply and that companies are required to recognise deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

2.1.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred to by the term "SLFRS") as issued by Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these financial statements is in compliance with the requirements of the Companies Act No.07 of 2007.

The presentation of these financial statements is in compliance with the requirements of the Banking Act No. 30 of 1988.

2.1.2 Historical cost convention

The financial statements of the Bank have been prepared on a historical cost basis, except otherwise indicated. Further financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit and loss has been recorded in fair value.

The financial statements are presented in Sri Lankan Rupees, except when otherwise indicated.

2.1.3 Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 34 to the financial statements.

Each material class of similar items is presented separately in the financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.1 Basis of preparation (contd)

2.1.4 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand in Sri Lankan Rupees unless otherwise stated.

2.1.5 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter-period comparability. The presentation and classification of the financial statements in the previous year are classified, where relevant or better presentation and to be comparable with those of the current year.

2.2 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. Use of available information, estimates and assumptions and application of judgement is inherent in the preparation of financial statements as they affect the application of accounting policies and the recorded amounts in the financial statements. The Bank believes its estimates including the valuation of assets and liabilities as appropriate. Estimates of underlying assumptions are reviewed on a continuous basis. However the actual results may differ from those estimates. The most significant uses of judgements and estimates are as follows:

2.2.1 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are assessed collectively.

Impairment is calculated as per "Expected Credit Loss (ECL)" calculation, which is an output of complex models with a number of underlying assumptions regarding choice of variable inputs and their interdependencies. Considered accounting judgements and estimates used in ECL include:

- * Company's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss(LTECL) basis;
- * The segmentation of financial assets when their ECL is assessed on a collective basis;
- * Development of ECL models; including the various statistical formulas and the choice of inputs;
- * Determination of associations between macro - economic inputs such as GDP Growth and the effect on Probability of Default(PDs), Exposure at Default (EAD) and Loss Given Default (LGD);

The impairment loss on loans and advances is disclosed in more detail in Note 2.3.8 and Note 7 to the financial statements.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.2.2 Write-off

Financial assets (and related impairment allowances) are normally written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

2.2.3 Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition. For retail, renegotiated loans are kept at stage 3 until full settlement.

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring.

2.2.4 Estimation uncertainties and judgements made in relation to lease accounting

The estimation uncertainties and judgements made in relation to lease accounting is disclosed in more detail in Note 2.3.19 and Note 12 to the financial statements.

2.2.5 Employee benefit liability - gratuity

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. The details of the employee benefit liability are disclosed in Note 17 to the financial statements.

2.2.6 Measurement of property plant and equipment

All Property, plant and equipment is initially recorded at cost and subsequently at cost less depreciation and less any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.2.7 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities disclosed in the financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates. The valuation of financial instruments is described in more detail in Note 35.

2.2.8 Income tax and other taxes

The Branch is subject to income tax and other tax such as Value Added Tax, National Building Tax and Crop Insurance Levy specifically levied on the Banking and financial sector. The calculations are based on the provisions enacted as per the relevant Acts and guidelines published by Inland Revenue Department. The Branch recognises liabilities for any pending tax matters with the tax authorities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be set off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. The details of the deferred tax asset are described in more detail in Note 2.3.18 and Note 18 to the financial statements.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies

2.3.1 Functional and presentation currency

The Bank's local operations comprise of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

These financial statements of State Bank of India – Sri Lanka Operations ("Bank") have been prepared by amalgamating the results of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU) operations and the financial position of the both units. Each unit determines its own functional currency. Accordingly the functional currency of the Domestic Banking Unit is Sri Lankan Rupees and the Foreign Currency Banking Unit is United States Dollars. The presentation currency for both units is Sri Lankan Rupee.

Transactions and balances

Transactions in foreign currencies are initially recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date. All differences arising are taken in to statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of recognition.

Accordingly, the results and financial position of Foreign Currency Banking Unit (FCBU) are translated to Sri Lankan Rupees as follows:

The assets and liabilities of Foreign Currency Banking Unit operations are translated to Sri Lankan Rupees at spot exchange rates at the reporting date while the capital of Foreign Currency Banking Unit is translated at historical rate. The income and expenses of the Foreign Currency Banking Unit operations are translated at monthly average rates.

Foreign currency differences arising on the translation of FCBU operations to presentation currency are recognised in other comprehensive income.

2.3.2 Fair value measurement

Fair value related disclosures for assets measured at fair value or financial instruments that are not measured at fair value, for which fair values are disclosed, are summarised in Note 35 to the financial statements.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, as described below:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring and non- recurring fair value measurements.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.3 Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks (the Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a reserve against all deposit liabilities denominated in Sri Lankan Rupees. The reserve should be maintained for an amount equal to 4.0% of the total of such rupee deposit liabilities), and highly liquid financial assets with original maturities of three months or less from the date of the acquisition that are subject to and insignificant risk of changes in their fair value, and are used by the bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.3.4 Placements with financial institutions

Placements with financial institutions includes short term placements made with banks and other financial institutions and these are carried at amortised cost in the statement of financial position.

2.3.5 Assigned capital

Assigned capital of the bank represent the capital contributions made to the Branch by the Head office.

2.3.6 Statutory reserve fund

Five per centum of profits after tax is transferred to the statutory reserve fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988. Transfers made during the year from Retained earnings to Statutory Reserve Fund is LKR 100,974,627 (Note 20).

2.3.7 Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement and subsequent measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing those instruments. Financial instruments are measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The bank holds the following financial instruments:

Financial assets	Category	Carrying Value	Carrying Value
		as of 31.03.2023	as of 31.03.2022
Cash and cash equivalents	Amortised cost	5,345,364,167	4,933,967,383
Balances with Central Bank of Sri Lanka	Amortised cost	5,927,046,529	9,283,299,968
Placement with financial institution	Amortised cost	19,129,513,793	14,171,082,690
Other financial assets	Amortised cost	260,000,000	259,996,172
Loans and advances to customers	Amortised cost	7,168,523,424	21,364,051,213
Investment in government securities	Amortised cost	-	-
Investment in government securities - T Bills	FVOCI	-	1,668,180,573
Investment in unquoted shares	FVOCI	530,000	530,000
Financial liabilities			
Due to banks	Amortised cost	999,070,953	949,473,581
Due to customers	Amortised cost	15,104,072,704	20,484,867,856
Other borrowings	Amortised cost	2,457,831,328	14,733,167,038



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.7 Financial instruments – initial recognition and subsequent measurement (contd)

(a) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL.

- The asset is held within a business model whose objective is to hold asset to collect contractual cash flows; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains / (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(b) Financial assets measured at FVOCI

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains / (losses), and impairment expenses are presented as separate line item in the statement of profit or loss.

(c) Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss.

A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises.

(d) Financial liabilities - Subsequent measurement

Bank's financial liabilities include due to customers, due to banks, borrowings and other financial liabilities.

The subsequent measurement of financial liabilities depends on their classification as follows:

Due to customers / banks

Due Customers / banks include deposits and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement through the effective interest rate method (EIR) amortisation process.

Borrowings / other financial liabilities

After initial measurement, borrowings and other financial liabilities are subsequently measured at amortised cost using EIR. Amortised cost is calculated by taking in to account any discount or premium on the issue and costs that are an integral part of the EIR.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.8 Impairment of financial assets

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provisions for such losses at reporting date. The measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioural credit models. ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which are measured as 12-month ECL:

- Instruments that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

* Stage 1 – A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

* Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

* Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

For financial assets in Stage 1 and Stage 2, the Bank calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount (i.e., without deduction for ECLs). Interest income for financial assets in Stage 3 is suspended and included in loan impairment.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD) - An estimate of the likelihood of default over a given time horizon.
- Loss given default (LGD) - An estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.
- Exposure at Default (EAD) - An estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Further any impact on Covid - 19 outbreak, to the impairment of financial assets have been considered and relevant impairment charge has been recognized appropriately.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.9 De-recognition of financial assets and financial liabilities

(i) Financial assets

A financial asset is derecognised when:

- . The rights to receive cash flows from the asset have expired; or
- . The Bank has transferred substantially all the risks and rewards of the asset

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.3.10 Derivative financial instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

2.3.11 Reverse repurchase agreements

Securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Interest Income' and is accrued over the life of the agreement using the effective interest rate.

2.3.12 Property plant and equipment

Property, plant and equipment are stated at cost excluding cost of day to day servicing, less accumulated depreciation and accumulated impairment value, if any. The Bank reviews its assets residual values, useful lives and method of depreciation at each reporting date. Judgement by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Depreciation is calculated using the reducing balance method other than for computer hardware and premises to write down the cost to their residual values over their estimated useful lives from the time asset is placed in use. Land is not depreciated. Management has re-assessed the useful life of the assets during the period and changed the useful life of assets with effect from 01.04.2020. The estimated useful lives are as follows,

Premises	50 Years
Motor vehicles	10 Years
Furniture, fixtures and fittings	10 Years
Office Equipment	10 Years
Computer Software	1 Year

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" or "Other operating expense" as appropriate in the Statement of comprehensive income in the year the asset is derecognised.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.13 Recognition of the Loans and Receivable under COVID – 19 Moratorium Scheme

Modifications to the cash flows of the loans and receivables due to the COVID 19 outbreak considers as 'non-substantial', thus does not result in derecognition of the financial assets in accordance with SLFRS 9 - "Financial Instruments". Accordingly, modifications gain/loss shall be charged to profit or loss immediately. In the determination process the management applied professional judgement by comparing the modification loss as against carrying value of the asset and the decision were taken based on the materiality of the gain / loss.

2.3.14 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount.

2.3.15 Financial guarantees

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under SLFRS 9 Financial Instruments, and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of SLFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.3.16 Employee benefit liability

(a) Defined benefit plan - gratuity

The Bank measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan using the actuarial valuation method. The actuarial valuation involves making assumptions about discount rate, future salary increase rate and mortality rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly the employee benefit liability is based on the actuarial valuation as at 31 March 2023 carried out by Messrs. Actuarial and Management Consultants (Private) Limited, actuaries. Refer Note 17 to the financial statements for details on Gratuity.

The gratuity liability is not externally funded.

(b) Defined contribution plans - Employees' provident fund and employees' trust fund

Employees are eligible for Employees' provident fund contributions and Employees' trust fund contributions in line with the respective statutes and regulations. The Bank contributes 12% of gross emoluments of employees to an approved private provident fund and 3% to the Employees' Trust Fund respectively whilst the employees contribute 8% of their gross salary to the Employees' provident fund.

2.3.17 Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.18 Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Income tax on profits from Domestic Banking Unit and Foreign Currency Banking Unit is calculated at the rate of 24% for the period April 2022 to September 2022 and at the rate of 30% from October 2022 to March 2023.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred Tax on Domestic Banking Unit and Foreign Currency Banking Unit is calculated at the rate of 30%.

Value Added Tax (VAT) on financial services

During the year, Bank's total 'value addition' was subjected to 15% (until 31.12.2021) and revised to 18%. VAT on financial services as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

2.3.19 Leases

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.20 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised. Performance obligation is satisfied when service is rendered to the customer.

a) Interest income and expenses

For all financial instruments interest income or expense is recorded using Effective Interest Rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes in to account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

b) Fee and commission income

The Bank earns fees and commissions from a diverse range of services it provides to customers. Fee income can be divided to following categories,

(i) Fee income earned from services that are provided over a certain period of time & at the point in time when the transaction takes place

Fees earned for the provision of services over a period of time are accrued over that period.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contract with customers, including significant payment terms, and the related revenue recognition policies.

Types of Services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Retail and Corporate Banking Services	<p>The bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees.</p> <p>Fees for ongoing account management are charged to the customers account on a monthly basis. The bank sets the rates separately for Retail and Corporate Banking customers in each jurisdiction on an annual basis.</p> <p>Transaction based fees for interchange, foreign currency transactions and overdrafts are charged to the customers accounts when the transaction takes place.</p> <p>Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the bank.</p>	<p>Revenue from account service and serving fees is recognised overtime as the services are provided.</p> <p>Revenue related to transactions is recognised at the point in time when the transaction takes place.</p>



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

2 Summary of significant accounting policies (contd)

2.3 Summary of significant accounting policies (contd)

2.3.20 Revenue recognition (contd)

b) Fee and commission income (contd)

(ii) Fee income from providing transaction services

Fees arising from providing transaction services including account service fees is recognised as the related services are performed.

c) Net trading income

Net trading income comprise of results arising from trading activities including gains and losses on foreign exchange forward contracts.

d) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

e) Other income

Other income is recognised on an accrual basis.

f) Other expenses

All other expenses have been recognised in the financial statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining capital assets in a state of efficiency has been charged to revenue in arriving at the Bank's profit for the year.

2.3.21 Contingent liabilities and commitments

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Financial guarantees and undrawn facilities

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilised credit facilities granted to customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

2.3.22 Cash flow statement

The cash flow statement has been prepared by using the "Indirect Method" in accordance with LKAS 7 on statement of cash flows, whereby profit or loss is adjusted for the effects of translations of a non cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Cash and cash equivalents mainly comprise of cash balances, placements, highly liquid investments of which original maturity of 3 months or less and net of any amount due from banks.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

3 Analysis of financial instruments by measurement basis

	2023	2022
Assets		
Financial assets at amortised cost		
Cash and cash equivalents	5,345,364,167	4,933,967,383
Balances with Central Bank of Sri Lanka	5,927,046,529	9,283,299,968
Placement with financial institution	19,129,513,793	14,171,082,690
Loans and advances to customers	7,168,523,424	21,364,051,213
Debt instruments	260,000,000	259,996,172
Total financial assets at amortised cost	37,830,447,913	50,012,397,426

Financial assets measured at fair value through OCI

Financial assets measured at fair value through other comprehensive income	530,000	1,668,710,573
Total financial assets measured at Fair Value through OCI	530,000	1,668,710,573

	2023	2022
Liabilities		
Financial liabilities at amortised cost		
Due to banks	3,456,902,281	15,682,640,619
Due to customers	15,104,072,704	20,484,867,856
Sundry creditors and accrued expenses	177,964,620	153,305,233
Total financial liabilities	18,738,939,605	36,320,813,708

4 Cash and cash equivalents

	2023	2022
Cash in Hand - Local currency	71,676,908	79,644,589
Cash in Hand - Foreign currency	1,764,257	3,893,063
Balances with banks	328,292,393	1,438,477,626
Balances with Branches	441,596,363	491,929,393
Money at call and short notice	4,502,034,246	2,920,022,712
5,345,364,167	4,933,967,383	

5 Balances with central bank of Sri Lanka

	2023	2022
Money held at Central Bank of Sri Lanka in Sri Lanka Rupees	361,796,113	356,706,218
Non-statutory balances with Central Bank of Sri Lanka	5,565,250,416	8,926,593,750
5,927,046,529	9,283,299,968	

As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka. As at 31 March 2023, the minimum cash reserve requirement was 4% (Before September 2021 - 2%) of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

6 Placements with financial institutions

	2023	2022
Other placements with financial institutions	19,137,336,241	14,204,108,099
Less : Allowance for Impairment losses (Note 6.1)	<u>(7,822,448)</u>	<u>(33,025,409)</u>
	19,129,513,793	14,171,082,690

6.1 Allowance for Impairment losses

	2023	2022
As at 01 April	(33,025,409)	(55,465)
Reversal / (Charge) to income statement	25,202,960	(32,969,944)
Balance as at 31 March	<u>(7,822,448)</u>	<u>(33,025,409)</u>

7 Financial assets at amortised cost - loans and advances

	2023	2022
Gross loans and advances	7,282,860,873	21,491,539,673
Stage 1	6,977,191,821	20,593,276,806
Stage 2	180,480,483	897,540,936
Stage 3	125,188,569	721,931
Less ; Accumulated impairment	(114,337,449)	(127,488,460)
Stage 1	(88,340,634)	(107,013,950)
Stage 2	(6,728,213)	(20,474,510)
Stage 3	(19,268,602)	-
Net loans and advances	<u>7,168,523,424</u>	<u>21,364,051,213</u>

7.1 Net loans and advances by product

	2023	2022
Term loans	2,253,736,397	3,649,842,711
Overdraft	3,203,545,494	2,877,238,243
Short term loans	1,428,351,001	8,866,856,472
Trade finance loans	180,754,183	5,834,213,542
	<u>7,066,387,075</u>	<u>21,228,150,968</u>
Staff loans	102,136,349	135,900,245
	<u>7,168,523,424</u>	<u>21,364,051,213</u>

7.2 Net loans and advances by currency

	2023	2022
Local currency - Sri Lankan Rupees	1,891,154,431	2,425,328,686
Foreign currency	5,277,368,993	18,938,722,527
	<u>7,168,523,424</u>	<u>21,364,051,213</u>



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

7 Financial assets at amortised cost - loans and advances

7.3 Impairment allowance for loans and advances to customers

	Stage 1	Stage 2	Stage 3
Opening balance as at 01 April 2022	107,013,950	20,474,510	-
Charge/ (write back) to income statement	(18,673,316)	(13,746,297)	19,268,602
Closing balance as at 31 March 2023	88,340,634	6,728,213	19,268,602

	Stage 1	Stage 2	Stage 3
Opening balance as at 01 April 2021	93,004,226	36,115,378	-
Charge/ (write back) to income statement	14,009,724	(15,640,868)	-
Closing balance as at 31 March 2022	107,013,950	20,474,510	-

8 Financial assets at amortised cost - debt and other instruments

	2023	2022
Investment in government securities	-	-
Investment in other securities	260,000,000	260,000,000
Less : Provision for impairment	-	-
Less : FD Provision for impairment	-	(3,828)
	260,000,000	259,996,172

9 Financial assets measured at fair value through other comprehensive income

	2023	2022
Debt investments at fair value through other comprehensive income		
Investment in government securities - treasury bills	-	1,674,850,920
FV adjustment	-	(6,670,347)
	-	1,668,180,573

Equity investments at fair value through other comprehensive income

	2023	2022
Unquoted investments		
- Lanka Clear (Private) Limited (50,000 ordinary shares of Rs. 10/- each)	500,000	500,000
- Credit Information Bureau of Sri Lanka (300 ordinary shares of Rs. 100/- each)	30,000	30,000
	530,000	530,000
	530,000	1,668,710,573

10 Other assets

	2023	2022
Deposits and prepayments	7,871,052	23,090,152
Stationery	1,954,001	780,565
Receivables	5,183,589	4,423,043
ATM settlement receivable	962,351	5,903,359
Forex revaluation	-	197,760
	15,970,993	34,394,879



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

11 Property, plant and equipment

11.1 Gross carrying amounts

	Balance As at 01.04.2022	Additions	Disposals/ transfers and write-offs	Currency Translation Adjustment	Balance As at 31.03.2023
At cost					
Freehold building	497,068,962	-	-	-	497,068,962
Motor vehicles	4,333,333	-	-	-	4,333,333
Computer, furniture and fittings	299,931,157	34,253,390	(1,001,028)	-	333,183,519
	801,333,452	34,253,390	(1,001,028)	-	834,585,814
Total gross carrying amount	801,333,452	34,253,390	(1,001,028)	-	834,585,814

	Balance As at 01.04.2021	Additions	Disposals/ transfers and write-offs	Currency Translation Adjustment	Balance As at 31.03.2022
At cost					
Freehold building	497,068,962	-	-	-	497,068,962
Motor vehicles	4,333,333	-	-	-	4,333,333
Computer, furniture and fittings	297,536,717	3,808,760	(1,414,320)	-	299,931,157
	798,939,012	3,808,760	(1,414,320)	-	801,333,452
Total gross carrying amount	798,939,012	3,808,760	(1,414,320)	-	801,333,452



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

11 Property, plant and equipment (contd)

11.2 Accumulated depreciation

	Balance As at 01.04.2022	Charge for the year	Disposals/ transfers and write-offs	Currency Translation Adjustment	Balance as at 31.03.2023
At cost					
Freehold building	27,425,471	9,876,968	-	-	37,302,439
Motor vehicles	4,333,333	-	-	-	4,333,333
Computer, furniture and fittings	157,519,218	54,069,744	(170,013)	-	211,418,949
	<u>189,278,022</u>	<u>63,946,712</u>	<u>(170,013)</u>	<u>-</u>	<u>253,054,721</u>
Total accumulated depreciation	189,278,022	63,946,712	(170,013)	-	253,054,721

	Balance As at 01.04.2021	Charge for the year	Disposals/ transfers and write-offs	Currency Translation Adjustment	Balance as at 31.03.2022
At cost					
Freehold building	17,517,394	9,908,077	-	-	27,425,471
Motor vehicles	4,333,333	-	-	-	4,333,333
Computer, furniture and fittings	117,239,136	41,694,401	(1,414,319)	-	157,519,218
	<u>139,089,863</u>	<u>51,602,478</u>	<u>(1,414,319)</u>	<u>-</u>	<u>189,278,022</u>
Total accumulated depreciation	139,089,863	51,602,478	(1,414,319)	-	189,278,022

11.3 Net book values

	2023 LKR	2022 LKR
At cost		
Freehold building	459,766,522	469,643,491
Computer, furniture and fittings	121,764,571	142,411,939
	<u>581,531,093</u>	<u>612,055,430</u>
Total carrying amount of property, plant and equipment	581,531,093	612,055,430



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

12 Leases

This note provides information for leases where the Company is a lessee.

(i) Amounts recognised in the statement of financial position.

The statement of financial position shows the following amounts relating to leases;

	Year ended 31 March	
	2023	2022
Right of use assets		
Opening balance	24,842,845	20,589,756
Additions during the year	-	8,066,837
Less- Amortisation charges for the period	(3,259,507)	(3,813,748)
As at 31 March	21,583,338	24,842,845
Lease liabilities		
Opening balance	25,273,168	19,632,630
Additions during the year	3,161,357	8,258,916
Add - Interest expenses charged for the period	53,838	154,942
Less- Lease payments made during the period	(4,129,434)	(2,773,320)
As at 31 March	24,358,929	25,273,168
Lease liabilities classified as:		
Current	914,239	5,100,310
Non- current	23,444,690	20,172,858

(ii) Amounts recognised in the statement of income.

The statement of income shows the following amounts relating to leases;

	2023	2022
Depreciation charge of right-of-use assets	3,259,507	3,813,748
Interest expense	53,838	154,942
The total cash outflow for leases	4,183,272	2,928,262



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

13 Due to banks

	2023	2022
Deposits from other banks - Vostros	999,070,953	949,473,581
	999,070,953	949,473,581

14 Financial liabilities at amortised cost - Due to customers

14.1 Due to customers - by products

	2023	2022
Demand deposits	7,425,980,686	14,205,999,157
Savings deposits	1,154,800,430	1,205,092,672
Time deposits	6,241,262,198	4,826,624,239
Call deposits	8,305,505	8,121,525
Margin balances	273,723,885	239,030,263
	15,104,072,704	20,484,867,856

14.2 Due to customers - by currency

Local currency - Sri Lankan Rupees	5,890,866,674	7,298,147,700
Foreign currency - United States Dollar	5,763,648,118	10,004,810,746
Foreign currency - others	3,449,557,912	3,181,909,410
	15,104,072,704	20,484,867,856

15 Financial liabilities measured at amortised cost - other borrowings

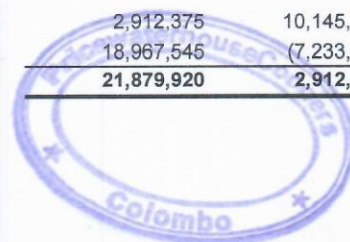
	2023	2022
Foreign borrowings	2,457,831,328	14,733,167,038
	2,457,831,328	14,733,167,038

16 Other liabilities

	2023	2022
Accrued expenses	133,280,668	116,180,403
Bills payable	27,777,398	24,011,603
Other liabilities	2,910,728	40,817,975
Withholding tax liability	4,195,829	86,034
Sundry Creditors	50,445,727	46,458,610
Deferred commission income	45,882,093	83,592,783
Impairment provision on unfunded facilities [Note 16.1]	21,879,920	2,912,375
	286,372,363	314,059,783

16.1 Impairment provision on unfunded facilities

	2023	2022
Stage 1		
Opening balance	2,912,375	10,145,405
Charge to income statement	18,967,545	(7,233,030)
Closing balance	21,879,920	2,912,375



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

17 Employee benefit liability

The Bank's defined benefit obligation plan operates under Payment of Gratuity Act No. 12 of 1983. Bank measures the Present Value of Defined Benefit Obligation (PVDBO) with the advice of an actuary using the Projected Unit Credit Method. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly, the employee benefits obligation is based on the actuarial valuation as at 31 March 2023, carried out by Actuarial & Management Consultants (Pvt) Ltd, actuaries.

	2023	2022
As at 1 April	214,277,380	276,173,674
Current service cost	4,909,813	6,353,395
Interest cost	32,141,607	23,474,762
Actuarial (gain) /loss on retirement benefit obligation	(52,418,767)	(69,952,685)
Payments during the year	(28,880,775)	(21,771,766)
As at 31 March	170,029,258	214,277,380

The key assumptions used by the management include the following.

	2023	2022
Rate of interest	18.0%	14.0%
Rate of salary increase	12%	10%
Retirement age	55	55
Average future working life of employees	16	17

17.1 Net benefit expense categorised under personal expenses,

	2023	2022
Current service cost	4,909,813	6,353,395
Interest cost	32,141,607	23,474,762
	37,051,420	29,828,157

Assumptions used

Type of Assumption	Criteria	Description
Demographic	Mortality - in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	Staff Turnover	The staff turnover rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The staff turnover rate before completing 25 years of pensionable service: 0.0% p.a. The staff turnover rate after completing 25 years of pensionable service: 2.0% p.a. until normal retirement age
	Normal Retirement age	The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays.
	Lump Sum Gratuity in lieu of Pension	It is assumed that no active employees will opt for payment of lump sum gratuity in lieu of pension at the retirement.
	Weighted Average Duration of defined benefit obligation	Approximately 8 Years
Financial	Country Rating Default Spread & Pre-Pandemic Default	An average discount rate of 18% is applied as it is recommended for valuation of pension and gratuity fund, given the economic conditions of the country, including factors such as Country rating default spread and pre-pandemic default. It is understood that different methodologies are used to arrive at a reasonable discount factor for the estimation.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

17 Employee benefit liability

17.2 In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees assuming the above is as follows;

	2023	2022
1% increase in discount rate	(10,604,268)	(16,498,375)
1% decrease in discount rate	12,182,062	19,427,989
1% increase in salary escalation rate	5,735,455	8,955,882
1% decrease in salary escalation rate	(4,976,914)	(7,698,305)

18 Deferred tax asset

	2023	2022
As at 1 April	34,266,040	54,394,088
Release/ (charge) during the year		
Recognised in Income Statement	8,163,412	(5,074,025)
Recognised in Other Comprehensive Income	(15,725,630)	(15,054,023)
As at 31 March	26,703,822	34,266,040

18.1.1 Deferred tax liabilities

Accelerated depreciation allowance for tax purposes	(24,117,237)	(17,160,531)
Property plant and equipment		
	(24,117,237)	(17,160,531)

18.1.2 Deferred tax assets

On employee benefit obligations	50,821,058	51,426,571
	50,821,058	51,426,571
Net deferred tax asset	26,703,821	34,266,040

Deferred tax has been determined based on the effective tax rate of 30% (2022 - 24%), as per tax laws issued by department of Inland Revenue.

19 Assigned capital and other

	2023	2022
Assigned capital	2,442,827,454	2,442,827,454
	2,442,827,454	2,442,827,454

The Bank's assigned capital includes the below;

Assigned capital	1,566,460,000	1,566,460,000
Funds from central office	831,951,309	831,951,309
Support funds	44,416,145	44,416,145
	2,442,827,454	2,442,827,454

Funds from central office and support funds are fund injected by the head office to the Branch in addition to the assigned capital.

20 Statutory reserve fund

	2023	2022
As at 1 April	450,954,201	402,040,194
Transfer from the profits during the year [Note 22]	100,974,627	48,914,007
As at 31 March	551,928,828	450,954,201

20.1 Five per cent of profits after tax is transferred to the Statutory Reserve Fund as required by section 20(1) of the Banking Act No 30 of 1988. This reserve fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No 30 of 1988.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

21 Foreign Currency Translation Reserve

	2023	2022
As at 1 April	4,634,817,928	1,923,327,679
Exchange differences on translations of foreign currency reserves	1,009,428,261	2,711,490,249
As at 31 March	5,644,246,189	4,634,817,928

Foreign Currency Translation Reserve represents the effect of currency translation of capital and reserve funds maintained in Foreign Currency Banking Unit due to exchange rate fluctuations.

22 Retained earnings

	2023	2022
As at 1 April	7,963,500,086	7,301,081,702
Balance as at 1 April - Adjusted		
Profit for the Year	2,153,564,621	658,168,350
Other comprehensive income for the year	36,693,137	53,164,041
Transfers to statutory reserve fund [Note 20]	(100,974,627)	(48,914,007)
As at 31 March	10,052,783,217	7,963,500,086

23 OCI Reserve

	2023	2022
As at 1 April	(4,949,396)	543,570
During the year movement	4,949,396	(5,492,966)
As at 31 March	-	(4,949,396)

The Branch has elected to recognise changes in the fair value of certain debt investments in OCI. These changes are accumulated within the FVOCI reserve within equity.

24 Interest income

	2023	2022
Placements with Banks and CBSL	2,634,521,577	520,243,451
Government securities		
- Treasury bills	30,014,080	23,852,210
- Treasury bonds	-	18,427,474
Loans and advances to customers	1,268,490,541	788,463,934
	3,933,026,198	1,350,987,069

25 Interest expense

	2023	2022
Due to customers	455,233,013	175,427,652
Money market and other borrowings	326,093,813	99,865,006
Interest expense on lease liability	53,838	154,942
	781,380,664	275,447,600



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

26 Fees and commission income

	2023	2022
Commission on trade finance facilities	216,321,912	87,263,465
Commission on guarantees	97,063,990	70,222,153
Commission on remittances	32,110,082	23,819,785
Loan Processing Fee	39,974,304	30,057,548
Commission on SWIFT operations	12,509,405	8,024,962
Commission on other Banking services	20,990,095	16,985,445
	418,969,788	236,373,358

27 Other operating income

	2023	2022
Dividend income	1,092,500	1,041,000
Foreign exchange gain	476,978,895	350,565,740
Rent income	1,877,238	1,794,656
Recovery of written off accounts	-	20,308
	479,948,633	353,421,704

28 Impairment charges/ (reversals) and other losses

	2023	2022
Loans and advances	(13,151,011)	(1,631,144)
Placements with Banks	(25,202,960)	32,969,944
Fixed deposits	(3,828)	3,387
Off balance sheet items	18,967,545	(7,233,030)
	(19,390,254)	24,109,157

	2023	2022
Impairment on loans and receivables from other customers	(13,151,011)	(1,631,144)
Impairment on Investment and placements	(25,206,788)	32,973,331
Impairment on off balance sheet obligations	18,967,545	(7,233,030)
	(19,390,254)	24,109,157

29 Personnel expenses

	2023	2022
Salaries	179,809,552	116,776,276
Employee benefits - defined benefit plan	7,141,632	15,891,676
Employee benefits - defined contribution plan	18,241,411	13,440,928
Employee Provident Fund (EPF)	14,640,475	10,765,498
Employee Trust Fund (ETF)	3,600,936	2,675,430
Bonus	7,864,302	8,070,630
Other allowances	27,673,665	16,907,354
	240,730,562	171,086,864



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

30.1 Other operating expenses

	2023	2022
Auditor's emolument	12,500,328	6,083,008
Professional and legal expenses	4,750,982	4,472,689
Office administration and establishment expenses	15,769,040	9,196,089
Repairs and maintenance of premises, computer and electricity expenses	52,729,591	39,495,669
Advertisement	1,075,983	1,139,072
Security charges	9,067,305	7,057,596
Head office expenses	17,342,472	37,655,887
Insurance	18,963,393	10,066,065
Subscription	711,283	1,552,030
Loss from disposal of property, plant and equipment	831,015	-
Rent, Rates and taxes	43,824,518	18,012,466
Nostro accounts maintenance expenses	14,301,920	6,457,528
License Fees	4,413,179	3,403,000
Miscellaneous expenses	35,493,733	29,585,002
	231,774,742	174,176,101

Amount reported beside Miscellaneous Expenses for 2023 mostly comprise of ATM transaction settlement charges of LKR 17Mn, official visit expenditure of LKR 3.4Mn and miscellaneous branch expenditure of LKR 3.2Mn.

30.2 Depreciation of property, plant and equipment and ROU assets

	2023	2022
Freehold building	9,876,968	9,908,077
Computer, furniture and fittings	54,069,744	41,694,401
Right of use asset	3,259,507	3,813,748
	67,206,219	55,416,226

31 Income tax and other taxes and levies

31.1 Taxes and levies on financial services

	2023	2022
Value Added Tax (VAT)	530,035,957	218,469,471
Social Security Contribution Levy (SSCL)	43,831,020	-
	573,866,977	218,469,471

31.2 Income tax expense

	2023	2022
Current income tax		
Current income tax on profit for the year [Note 31.3]	806,025,104	358,834,337
Deferred tax (reversal) / charge for the year	(8,163,412)	5,074,025
	797,861,692	363,908,362
Current tax liability/ (asset)		
Opening balance	178,398,114	78,474,611
Current tax for the year	806,025,104	358,834,337
Payments made during the year	(250,832,433)	(283,530,506)
Other adjustments	9,655,150	24,619,672
Closing balance	743,245,935	178,398,114

31.3 Reconciliation between current tax expenses and the accounting profit:

	2023	2022
Accounting profit before taxation	3,525,293,290	1,240,546,183
Tax at the applicable tax rate of 30% in 2023 (24% for 1 st 6 Months & 30% for 2 nd 6 Months) & 24% in 2022	951,829,188	297,731,084
Tax effect from expenses not deductible for tax purposes	111,463,557	132,868,852
Tax effect from Allowable deductions and income not subject to tax	(257,267,641)	(71,765,599)
Current income tax on profit for the year	806,025,104	358,834,337
Deferred tax (reversal) / charge for the year	(8,163,412)	5,074,025
Income Tax Expense	797,861,692	363,908,362



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

32 Cash flow information

Cash flows from operating activities

	Notes	2023	2022
32.1 Reconciliation of operating profit			
Profit before tax		2,951,426,313	1,022,076,712
Loss on disposal of property, plant and equipment		831,015	-
Depreciation of property plant and equipment	11	63,946,712	51,602,478
Depreciation of right to use asset	12	3,259,507	3,813,748
Impairment reversal for loans and advances	28	(13,151,011)	(1,631,144)
Impairment reversal / (Charges) for investment and unfunded facilities		(6,235,415)	25,740,301
Gratuity expense	17.1	37,051,420	29,828,157
Interest on lease creditor	12	53,838	154,942
		3,037,182,379	1,131,585,194
32.2 (Increase)/ decrease in operating assets			
Placement with banks		(4,933,228,142)	(10,989,024,865)
Balances with Central Bank of Sri Lanka		3,356,253,439	(4,450,989,822)
Loans and advances to customers		14,208,678,800	3,085,044,409
Other assets		18,423,886	19,887,445
		12,650,127,983	(12,335,082,833)
32.3 (Decrease)/ increase in operating liabilities			
Due to banks (Vostro)		49,597,372	243,243,138
Due to customers		(5,380,795,152)	12,255,703,079
Other borrowing		(12,275,335,710)	(2,115,451,971)
Other liabilities		(27,687,420)	154,704,206
		(17,634,220,910)	10,538,198,452



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements

33 Related party disclosure

The Bank carries out transactions in the ordinary course of business with the parties who are defined as related parties in the Sri Lanka Accounting Standards - LKAS 24 (Related Party Disclosures), the details of which are reported below.

Details of significant related party disclosures are as follows,

33.1 Transactions with Key Management Personnel

	2023	2022
Short term employee benefits	62,336,725	24,034,052
Contributions to defined contribution plans	5,664,237	1,577,767
	68,000,962	25,611,819
Total loans	3,509,464	2,665,799
Less: Allowance for impairment	(11,498)	(6,898)
	3,497,966	2,658,901
Total deposits	10,431,949	25,075,001
	10,431,949	25,075,001

The loans to key management personnel are generally for periods of ten years, repayable in monthly instalments at interest rates between 4% to 6%. Loans are secured by provident fund balances and first mortgages over the individuals' residence and vehicle.

33.2 Transactions with affiliate branches Items in the statement of financial position

	2023	2022
Balances due from Banks (Nostro Balances)		
SBI-Colombo Branch	760,331,764	808,871,353
SBI Colombo Mirror A/C	4,657,281	12,854,944
Euro Mirror A/C FCBU	3,406,633,455	3,115,516,393
Inter-Branch Placement	3,047,300,310	7,884,000,000
	7,218,922,810	11,821,242,690
Balances due to Banks (Vostro Balances)		
SBI-Kandy Branch	760,331,764	808,871,353
SBI Kandy Branch USD A/C	4,657,281	12,854,944
Euro Mirror A/C DBU	3,406,629,886	3,115,516,393
Inter-Branch borrowing	3,047,300,310	7,884,000,000
	7,218,919,241	11,821,242,690

33.3 Transactions with State Bank of India Sri Lanka Operations - Employee Provident Fund Items in the statement of financial position Liabilities

	2023	2022
PF Pool Account Balance / Saving deposit	68,961,385	126,437,700
	68,961,385	126,437,700
Items in the statement of comprehensive income		
Employee benefits - Employee Provident Fund	13,796,922	6,085,741
Interest expense	13,796,922	6,085,741



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

34 Maturity analysis of assets and liabilities

As at 31 March	Within 12 Months	After 12 Months	2023 Total	Within 12 Months	After 12 Months	2022 Total
Assets						
Cash and cash equivalents	5,345,364,167	-	5,345,364,167	4,933,967,383	-	4,933,967,383
Balances with Central Bank of Sri Lanka	5,927,046,529	-	5,927,046,529	9,283,299,968	-	9,283,299,968
Placements with financial institutions	19,129,513,793	-	19,129,513,793	14,171,082,690	-	14,171,082,690
Financial assets at amortised cost	260,000,000	-	260,000,000	259,996,172	-	259,996,172
Loans and advances to customers	5,921,979,351	1,246,544,073	7,168,523,424	19,469,488,193	1,894,563,020	21,364,051,213
Financial assets measured at fair value through other comprehensive income	-	530,000	530,000	1,668,180,573	530,000	1,668,710,573
Other assets	15,970,993	-	15,970,993	34,394,879	-	34,394,879
Property, plant and equipment	-	581,531,093	581,531,093	-	612,055,430	612,055,430
Deferred tax asset	26,703,821	-	26,703,821	34,266,040	-	34,266,040
Right of Use (RoU) asset	-	21,583,338	21,583,338	-	24,842,845	24,842,845
Total assets	36,626,578,654	1,850,188,504	38,476,767,158	49,854,675,898	2,531,991,295	52,386,667,193
Liabilities						
Due to banks	999,070,953	-	999,070,953	949,473,581	-	949,473,581
Due to customers	15,039,337,787	64,734,917	15,104,072,704	20,484,867,856	-	20,484,867,856
Other borrowings	2,457,831,328	-	2,457,831,328	14,733,167,038	-	14,733,167,038
Assigned capital	-	2,442,827,454	2,442,827,454	-	2,442,827,454	2,442,827,454
Statutory reserve fund	-	551,928,828	551,928,828	-	450,954,201	450,954,201
Retained earnings	-	10,052,783,217	10,052,783,217	-	7,963,500,086	7,963,500,086
Other reserves	-	5,644,246,189	5,644,246,189	-	4,629,868,532	4,629,868,532
Lease liability	-	24,358,929	24,358,929	-	25,273,168	25,273,168
Current tax liabilities	743,245,935	-	743,245,935	178,398,114	-	178,398,114
Other liabilities	286,372,363	-	286,372,363	314,059,783	-	314,059,783
Employee benefit liability	-	170,029,258	170,029,258	-	214,277,380	214,277,380
Total liabilities	19,525,858,366	18,950,908,792	38,476,767,158	36,659,966,372	15,726,700,821	52,386,667,193



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

35 Fair value measurement

35.1 Fair value measurement hierarchy for assets as at 31 March 2023

35.1.1 Assets measured at fair value

The following table provides an analysis of assets recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial positions. Please refer Note 2.3.2 of the financial statements on accounting policies of fair value measurement.

	Date of valuation	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Rs.	Rs.	Rs.	Rs.
As At 31 March 2023					
Assets measured at fair value					
Financial assets measured at fair value through other comprehensive income :					
Investment in government securities - treasury bills	31-Mar-23	-	-	-	-
Unquoted investments in Lanka Clear (Private) Limited and Credit Information Bureau of Sri Lanka	31-Mar-23	530,000	-	-	530,000
		530,000	-	-	530,000

	Date of valuation	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Rs.	Rs.	Rs.	Rs.
As At 31 March 2022					
Assets measured at fair value					
Financial assets measured at fair value through other comprehensive income :					
Investment in government securities - treasury bills	31-Mar-22	1,668,180,573	-	1,668,180,573	-
Unquoted investments in Lanka Clear (Private) Limited and Credit Information Bureau of Sri Lanka	31-Mar-22	530,000	-	-	530,000
		1,668,710,573	-	1,668,180,573	530,000

35.1.2 Assets not carried at fair value for which fair values are disclosed

	2023	2022
Other financial assets	30,661,924,489	28,648,346,213
Loans and advances to customers	7,168,523,424	21,364,051,213
	37,830,447,913	50,012,397,426



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

35 Fair value measurement (contd)

35.2 Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets	2023	2023	2022	2022
	Fair Value Rs.	Carrying Value Rs.	Fair Value Rs.	Carrying Value Rs.
Other financial assets	30,661,924,489	30,661,924,489	28,648,346,213	28,648,346,213
	30,661,924,489	30,661,924,489	28,648,346,213	28,648,346,213

Assets for which fair value approximates carrying value

For financial instruments other than "Loans and receivables to other customers", carrying amount is a reasonable approximation of fair value because, for example, they are short term in nature or re-price to current market rates frequently.

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature to reprice to current market rates frequently;

Assets

Cash and cash equivalents
Balances with Central Bank of Sri Lanka

Liabilities

Due to Banks
Other Borrowings
Due to Customers

Fixed rate financial instruments

Carrying amounts are considered as fair values for short term credit facilities. Loans and advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Interest rates based on treasury bond rates with similar tenors with an adjustment for risk premium have been used to arrive at the fair value of debentures and trust certificates.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management

36.1 Bank Risk Management Approach & Risk Culture

We promote a strong risk culture where employees at all levels are responsible for the management and escalation. We expect employees to exhibit behaviours that support a strong risk culture in line with our Code of Business Conduct and ethics. It is the responsibility of Senior Management of SBI SL to establish a robust and pervasive risk culture and clear policies.

Further, in line with bank's global procedure and practices, the bank has developed an integrated framework in order to assess and appropriately manage various risk exposures of SBI SL. The Risk Management & Compliance functions are independent from business lines and reporting directly to the DGM Risk & DGM (Compliance - FOs) at International Banking Group, Corporate Centre, Mumbai, India.

Risk Management Committee (RCOM) & Escalation Mechanism

The RCOM has the overall responsibility for monitoring the risk management processes in State Bank of India –Sri Lanka Operations (SBI SL). The objectives of RCOM is to derive the most appropriate strategy for SBI SL in terms of the risk taken, expectation of the future and the potential consequences of Pillar I & II risks. The Committee supervise broad risk categories i.e. credit, credit concentration, market, operational, country, residual, liquidity, interest rate, reputational, strategic, compliance and IT/IS risks and have the power to recommend the risk appetite as well as the risk management strategies for SBI SL. The Committee take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the bank and keep Corporate Centre, India informed. Also, RCOM ensure that all strategies conform to the bank's risk appetite and the level of exposure.

A comprehensive Policy Framework

The Bank has set up a comprehensive Integrated Risk Management Framework (IRMF) with the aim to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank within its risk appetite while facilitating achievement of strategic goals in the long run preserving and safeguarding the capital of the bank. Risk Management Framework takes into account all plausible risks and uncertainties the Bank is exposed to. The components of the Bank's IRMF include risk governance comprising Board oversight, Management and respective committees, well defined risk capacity, appetite and tolerance levels, Risk and Control Self- Assessment (RCSA), system of internal control, infrastructure, risk culture and contingency planning for business continuity, disaster recovery and contingency funding etc. IRMF is subject to an annual review or more frequently if the circumstances so warrant, taking into account changes in the regulatory and operating environments.

Risk Appetite

The bank has clearly defined Risk Appetite and it clearly communicates its tolerance levels for its material risks in both qualitative and quantitative terms and is a key component of the risk management framework. Aided by the solid Integrated Risk Management Framework, the bank monitors its risk profile using various risk indicators regularly for each risk categories on an ongoing basis and takes remedial action for any deviations to ensure that it is kept within the risk appetite.

Risk Governance

The Risk Management function is independent from business lines and reporting directly to the DGM Risk at International Banking Group, India. DGM Risk – IBG functionally reports to GM (RM & RC) IBG and administratively to CGM (Risk). CGM (Risk) reports to Deputy Managing Director & Chief Risk Officer (DMD & CRO). DMD & CRO reports to Risk Management Committee of the Bank (Board Committee), thereby making risk management an independent function.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

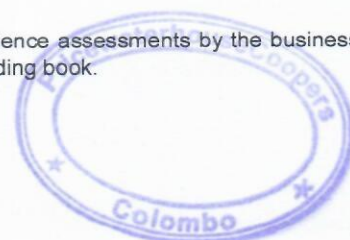
36 Risk management (contd)

36.2 Credit risk

36.2.1 Introduction

Credit risk refers to the potential loss resulting from the failure of a customer/ borrower or counterparty to honour its financial or contractual obligations to the Bank. Credit risk can arise from both on and off balance sheet activities consisting of commitments and contingencies. The total credit risk of the Bank constitutes counterparty risk, concentration risk, residual risk and settlement risk. It is managed in line with the Loan policy which is reviewed on an annual basis. For regulatory capital computation purposes, SBI SL uses Basel Standardized Approach. The Bank has adopted stringent credit risk management process to mitigate the risk associated with the loan book by way of following strategic initiatives:

- The SBI Sri Lanka manages credit risk carefully by applying a strict set of criteria while dealing with institutions and individuals of credit worthiness and ensuring exposure to counterparties are appropriately secured. Risk tolerance limits for SBI SL's activities in credit risks are outlined in the Loan policy. A consistent standard have been adapted for the origination, documentation and maintenance of the documents for extension of credit.
- Bank uses a sophisticated Loan Life Cycle Management System (LLMS) which generate credit proposal and Customer Risk Rating against specified parameters. The ratings lie on a scale between SB 1 (zero risk) to SB 16 (default grade) and these ratings are validated Independently by Credit Rating Assessment Validation
- The Bank has in place a scheme of delegation of Financial Powers for Foreign offices which has a graded authority structure. The Executive Committee of the Central Board (ECCB) has full powers for sanctioning credit facilities. The sanction powers have been delegated down the line to committees of officials at various administrative offices and to individual line functionaries based on total indebtedness and whether the facility is secured or unsecured.
- Prudential risk limits have been stipulated for various risk parameters. Credit risk limits are set by obligator, concentration, industry, and geography/ country. Bank considers bench mark ratios, with flexibility for deviation in deserving cases. The conditions subject to which deviation are permitted and the authority for permitting such deviation should be clearly spelt out in the loan policy.
- Emphasis is given on maintaining a diversified portfolio of risk assets in line with capital desired to support such a portfolio.
- The bank has in place a graded authority structure for delegation of financial powers. All sanctions are subject to report to the next higher authority for control.
- Apart from the above, there are various credit risk mitigating techniques adopted by the Bank viz post sanction loan review mechanism by Loan Review Officer attached to Risk Management department of SBI SL, analysis of various MIS reports, periodical post disbursement monitoring on insurance, revaluation, inspection etc.
- SBI SL has a separate guideline on NPA Management which is incorporated in the Credit Policy. It describes Bank's policy on NPA management, recovery and proactive initiatives to contain net NPAs in conformity with international standards.
- Bank takes a consistent approach towards early problem recognition, classification of problems exposure and remedial action has been adapted.
- Risk based pricing: Pricing is linked to grade of the risk in the exposure. When a borrower's credit risk increases, the Bank demands a higher credit risk premium by way of increasing the interest rate.
- Stress testing for Bank credit portfolio will be conducted at quarterly intervals and results to be analyzed for chalking out appropriate remedial action for risk mitigation.
- Impairment on the potential delinquents by way of reviewing objective evidence assessments by the business units and adequacy of impairment provisions to absorb credit risk of the lending book.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.2 Credit risk (contd)

36.2.1 Introduction (contd)

36.2.2 Credit Concentration Risk

The concentration risk denotes the risk arising from uneven distribution of counterparties, business sectors (Sectorial concentration) or geographical regions (geographical concentration), which is capable of generating losses large enough to affect the solvency.

Concentration risk arises in Bank's assets, liabilities, and off-balance sheet items as well. SBI SL recognizes that there are two types of concentration risks that are pertinent to SBI SL namely, Borrower Concentration and Economic Sector Concentration. Apart from commonly used methods of economic sector and borrower concentration mentioned above, the SBI SL reviews Borrower rating distributions, Age analysis, geographical distribution, country risk, funding concentration etc. for portfolio level monitoring.

The exposure to single borrowers, group borrowers and large borrowers are such exposure limits that are monitored by SBI SL against the prudential limits set by regulators. In addition to the prudential exposure limits, the substantial exposure norms which are in-house limits set within the prudential norms are intended to further help in monitoring credit concentrations. The exposure ceiling is fixed in relation to the Bank's Capital funds. Frequent monitoring and stringent control mechanisms are in place to ensure that the risk of concentrations on different types of exposure tables above are within the tolerance level of the Bank. SBI SL has not exceeded the various tolerance limits set under concentration risk categories. Reports on all substantial exposures are submitted to ALCO or RCOM if there is a deviation from these limits.

36.3 Country risk

Country risk is the risk that an occurrence within a particular country could have an adverse effect on the Bank directly by impairing the value of the exposures purchased / underwritten or indirectly through an obligor's inability to meet its obligations to the Bank.

The Bank assesses country exposure of countries where the bank has funded and non-funded exposures. The Bank has set maximum exposure limits on all the countries where the Bank has funded and non-funded exposures. These limits are reviewed at regular intervals and all foreign offices are advised accordingly.

The country wise exposure limits and utilization levels are monitored centrally and at foreign office levels through an automated system.

The Board of the Bank has formulated a policy on Country Risk Management and adopted a model for computation of country risk limits across the Bank. The Country Risk evaluation is being reviewed quarterly by the Board (SBI -India) with a provision to review the rating of specific country, based on any major events in that country. Also, country limits and the policy are being renewed every year on the basis of experience gained and requirements.

The country risk is being examined along with credit and other risks by the respective sanctioning authority/ committee which take a holistic view of the credit/ investment proposals at the sanctioning stage.

SBI Sri Lanka has not breached any country risk exposure limits for past 12 months.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4 Credit risk exposure

The total gross loans and receivables from all credit customers of the Bank stood at Rs. 7.283 Mn as at 31 March 2023 (31 March 2022 - Rs. 21.492 Mn) . Please refer Note 7 for the product wise loans and advances.

36.4.1 Commitments and contingencies

To meet the financial needs of customers, the Bank enters in to various commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

	As at 31 March	
	2023	2022
Guarantees	21,282,964,739	20,324,556,384
Letter of Credit	10,127,207,464	2,973,486,627
Bills for collection	6,117,671,970	16,779,992,756
Advances under collection	3,532,625,054	3,163,010,478
Acceptances	955,013,537	2,090,001,641
Undrawn commitments	5,116,247,786	3,586,865,240
	47,131,730,550	48,917,913,126

The maximum exposure to credit risk relating to guarantees is the maximum amount the Bank has to pay if the guarantees are called upon. In case of Letters of Credit, the Bank is liable to honour any complying presentation upto the aggregate amount above. Figure reported for Bills under collection consists of collection bills received / sent on collection. The Bank does not have any liability towards the importer or exporter on these. Advances under collection are the NPLs, which have been written off from the on-balance sheet and parked in AUCA (A/Cs under collection) as off-balance sheet / contingent items. Acceptances figure consists of bills accepted for purchase under LC. The Bank is liable to settle the full amount on the due date. Undrawn commitments consist of facilities granted to customers where the Bank reserves the right to unconditionally cancel or recall the facility at it's discretion.

Pending litigations against the Branch as at 31 March 2023

WP HCCA LA 107/2004 (F): Appeal application filed by the Bank against the Order of the District Court in DC Colombo Case 3902/Spl directing the Bank to reimburse a sum of USD 290,000/- to liquidators.

4431/21DMR: Proceedings were instituted against the Bank by Siem Construction Pvt Ltd, alleging that a sum of LKR 14,426,911.66 is due and owing for construction services rendered by them to the Bank.

The case is scheduled to be heard next on 18th July 2023, at which point, the answer on behalf of the Bank would need to be filed.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.2 Analysis of risk concentration

The following table shows the risk concentration by industry for the risk concentration related components of the statement of financial position.

As at 31 March 2023	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
Cash and cash equivalents	-	5,345,364,167	-	-	-	-	-	5,345,364,167
Balances with Central Bank of Sri Lanka	-	5,927,046,529	-	-	-	-	-	5,927,046,529
Placements with financial institutions	-	19,129,513,793	-	-	-	-	-	19,129,513,793
Financial assets at amortised cost	-	260,000,000	-	-	-	-	-	260,000,000
Financial assets measured at fair value through other comprehensive income	-	530,000	-	-	-	-	-	530,000
Other assets	-	645,789,245	-	-	-	-	-	645,789,245
Total other financial assets	-	31,308,243,734	-	-	-	-	-	31,308,243,734
Loans and advances to customers								
Net loans and advances	1,967,208,077	629,007,991	-	2,818,230,075	103,571,314	1,440,605,602	209,900,365	7,168,523,424
Total	1,967,208,077	31,937,251,725	-	2,818,230,075	103,571,314	1,440,605,602	209,900,365	38,476,767,158
As at 31 March 2022	Agriculture and fisheries	Financial services	Government	Manufacturing	Construction and housing	Traders	Other	Total
Cash and cash equivalents	-	4,933,967,383	-	-	-	-	-	4,933,967,383
Balances with Central Bank of Sri Lanka	-	9,283,299,968	-	-	-	-	-	9,283,299,968
Placements with financial institutions	-	14,171,082,690	-	-	-	-	-	14,171,082,690
Financial assets at amortised cost	-	259,996,172	-	-	-	-	-	259,996,172
Financial assets measured at fair value through other comprehensive income	-	1,668,710,573	-	-	-	-	-	1,668,710,573
Other assets	-	705,559,194	-	-	-	-	-	705,559,194
Total other financial assets	-	31,022,615,980	-	-	-	-	-	31,022,615,980
Loans and advances to customers								
Net loans and advances	1,125,119,301	7,016,260,863	-	3,790,586,129	113,256,771	9,186,392,215	132,435,933	21,364,051,213
Total	1,125,119,301	38,038,876,843	-	3,790,586,129	113,256,771	9,186,392,215	132,435,933	52,386,667,193



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.3 Credit quality analysis

Credit quality of financial assets

The table below shows the credit quality by class of financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

As at 31 March 2023	Performing Financial Assets	Past due but not individually impaired	Individually Impaired	2023 Total
Cash and cash equivalents	5,345,364,167	-	-	5,345,364,167
Balances with Central Bank of Sri Lanka	5,927,046,529	-	-	5,927,046,529
Placements with financial institutions	19,137,336,241	-	-	19,137,336,241
Financial assets at amortised cost				
- Gross loans and advances to customers	7,282,860,873	-	125,188,569	7,408,049,442
Term loans	2,275,962,432	-	721,931	2,276,684,363
Overdraft	3,288,068,791	-	124,466,638	3,412,535,429
Short term loans	1,435,338,278	-	-	1,435,338,278
Trade finance loans	180,955,000	-	-	180,955,000
Staff loans	102,536,372	-	-	102,536,372
- Debt and other instruments	260,000,000	-	-	260,000,000
Financial assets at fair value through other comprehensive income	530,000	-	-	530,000
Contingencies and commitments	47,153,610,470	-	-	47,153,610,470
Total	85,106,748,280	-	125,188,569	85,231,936,849
As at 31 March 2022	Performing Financial assets	Past due but not individually impaired	Individually Impaired	2022 Total
Cash and cash equivalents	4,933,967,383	-	-	4,933,967,383
Balances with Central Bank of Sri Lanka	9,283,299,968	-	-	9,283,299,968
Placements with financial institutions	14,204,108,099	-	-	14,204,108,099
Financial assets at amortised cost				
- Gross loans and advances to customers	21,491,539,673	-	721,931	21,492,261,604
Term loans	3,684,628,969	-	721,931	3,685,350,900
Overdraft	2,884,852,418	-	-	2,884,852,418
Short term loans	8,916,270,136	-	-	8,916,270,136
Trade finance loans	5,869,737,599	-	-	5,869,737,599
Staff loans	136,050,551	-	-	136,050,551
- Debt and other instruments	260,000,000	-	-	260,000,000
Financial assets at fair value through other comprehensive income	1,675,380,920	-	-	1,675,380,920
Contingencies and commitments	48,920,825,502	-	-	48,920,825,502
Total	100,769,121,545	-	721,931	100,769,843,476

Note : Past due loans include any loan that are in arrears for one day and above.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.3 Credit quality analysis (contd)

Maximum exposure to credit risk by risk rating (SLFRS 09)

Bank's financial instruments portfolio is divided into Funded, Unfunded, Investments & Placements. These categories are further sub categorised into SME, Corporate & Retail and credit quality of such facilities are determined as below based on internal risk rating.

Investments, Placements and Money at Call are based on Fitch Credit Ratings

Investments, Placements and Money at call as at 31 March 2023	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
AAA	260,000,000	260,000,000	-	-
A	2,000,000,000	2,000,000,000	-	-
A-	4,000,000,000	4,000,000,000	-	-
BBB-	17,545,544,340	17,545,544,340	-	-
	23,805,544,340	23,805,544,340	-	-

Investments, Placements and Money at call as at 31 March 2022	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
AA-	260,000,000	260,000,000	-	-
BBB-	12,380,800,000	12,380,800,000	-	-
CCC	4,723,489,820	4,723,489,820	-	-
	17,364,289,820	17,364,289,820	-	-

Loans & Advances are based on Internal Ratings and External ratings are mapped to Internal ratings

Loans and Advances to customers as at 31 March 2023	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3	928,188,443	928,188,443	-	-
Rating 4-7	2,361,452,249	2,361,452,249	-	-
Rating 8-9	3,042,821,262	2,862,340,779	180,480,483	-
Rating 10-13	483,328,936	358,862,297	-	124,466,638
Rating 14-16	-	-	-	-
Unrated	467,069,983	466,348,053	-	721,931
	7,282,860,873	6,977,191,821	180,480,483	125,188,569

Loans and Advances to customers as at 31 March 2022	Carrying amount	Subject to 12 month ECL (Stage 1)	Subject to Lifetime ECL (Stage 2)	Subject to Lifetime ECL (Stage 3)
Rating 1-3	7,097,015,045	7,097,015,045	-	-
Rating 4-7	12,322,851,072	12,037,301,148	285,549,924	-
Rating 8-9	1,027,154,550	730,313,352	296,841,198	-
Rating 10-13	834,052,498	518,902,684	315,149,814	-
Rating 14-16	-	-	-	-
Unrated	210,466,507	209,744,583	-	721,931
	21,491,539,673	20,593,276,812	897,540,936	721,931



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.3 Credit quality analysis (contd)

Financial assets are classified to stage 2, if they have a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. Criteria used by the bank in order to categories as Stage 2 are as follows.

- Internal ratings 7 to 9A or facilities with external ratings B to C will be directly categorized in stage 2.
- 2 or more grade: for facilities which were internally rated 3 to 4 (or external ratings of AAA to BBB).
- 1 or more grade: for other facilities which were internally rated 5 to 7 (or external ratings from BBB to BB and below) at inception.

Stage 3 financial instruments are considered to be impaired and ECL is calculated measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

When assessing collective impairment, exposures outstanding from customers in industries identified by the Bank having an elevated risk e.g. tourism & hospitality were classified as stage 2 & 3 and assessed for lifetime ECLs. Further, all customers within a debt moratorium or a debt restructuring arranged on their request, are closely monitored on an ongoing basis for any adverse developments in the customers' credit quality and assessed on a case – by – case basis whether the movement to Stage 2 or whether consideration as credit-impaired would be necessary. In addition to the ongoing monitoring process, when assessing the expected credit losses, the Bank considered the potential impact of the COVID-19 outbreak based on the available information.

Aging of past due but not individually impaired financial assets

Past due and individually impaired financial assets are given in Note no.36.4.3

Past due but not individually impaired financial assets (subjected to collective impairment) are given in the below table

Financial assets except for mentioned in below, are not past due and are not individually impaired.

As at 31 Mar 2023	Past due below 3 months but not individually impaired	Past due 3-12 months but not individually impaired	Past due more than 12 months but not individually impaired	Total past due but not individually impaired
Term loans	841,242,471	-	-	841,242,471
Overdraft	-	-	-	-
Short term loans	-	-	-	-
Trade finance loans	-	-	-	-
Staff Loans	-	-	-	-
Total	841,242,471	-	-	841,242,471
As at 31 Mar 2022	Past due below 3 months but not individually impaired	Past due 3-12 months but not individually impaired	Past due more than 12 months but not individually	Total past due but not individually impaired
Term loans	99,347,484	-	-	99,347,484
Overdraft	-	-	-	-
Short term loans	-	-	-	-
Trade finance loans	-	-	-	-
Staff Loans	-	-	-	-
Total	99,347,484	-	-	99,347,484

Please refer Note 7 for the individual and collective impairment with respect to loans and advances to customers.

The Bank does not rebut the 30 DPD presumption as a key SICR criterion. Thus any financial instrument with 30 DPD are classified as Stage 2. As of 31.03.2023 no financial instrument is more than 30 DPD except for stage 3 classified facilities.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.4.3 Credit quality analysis (contd)

Definition of default

The Bank has set out the following definition of default.

- Days Past Due: Exposures that have one or more instalment past due for more than 90 days. This will be consistent with the rebuttable criteria set out by SLFRS 9 and existing practice of the Bank.

- Rating: Customers rated 10 to 12 (not applicable in the case of retail facilities).

- Event driven defaults: this will be based on the customer specific factors such as breach of covenants which are deemed material, declaration of bankruptcy by the customer, death of borrower and other customer specific factors. This will be applied on a case by case basis.

Apart from risk ratings and DPD data, following will be considered to determine significant increase in credit risk of the customers.

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When a significant change in the geographical locations of a customer or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument.
- When the value of collateral is significantly reduced. (Limits shall be set and documented by SBI SL).
- When a customer is subject to litigation, that may significantly affect the performance.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/projects by more than one year.

- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.
- When the customer is deceased / insolvent.
- When the bank is unable to contact or find the customer.
- When the bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover or profit before tax of the customer as compared to the previous year.
- Erosion in net-worth by more than 25% as compared to the previous year.

Aging of past due but not individually impaired financial assets (contd)

Age analysis of impaired financial assets (contd)

36.4.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

For commercial lending: charges over real estate properties, cash, inventory and trade receivables, shares etc.

For retail lending: mortgages over residential properties, motor vehicles etc.

The Bank also obtains guarantees from parent companies as securities against loans granted to their subsidiaries.

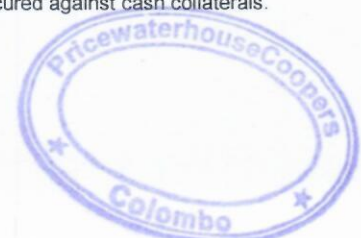
In order to determine the market value of collaterals for calculation of ECL, the bank conducts revaluations of mortgaged property, plant and machinery every 3 years through an external independent valuer as specified in CBSL direction No. Direction No. 03 of 2008 – Classification of loans and advances, income recognition and provisioning and in line with banks internal policies and procedures.

Management monitors the market value of collateral and will request additional collateral if the market values are not sufficient in accordance with the underlying agreement. It is the Bank's policy to dispose repossessed properties in an orderly manner. The proceeds are used to recover the outstanding claim.

There was no change in the Bank's collateral policy during the year. Further, the Bank did not observe any significant deterioration in the quality of the collaterals and other credit enhancements during the reporting period.

The bank considers any collateral as eligible for SLFRS 9 as per the policies set by the bank and as per the regulations issued by CBSL for the calculation of ECL.

The Bank has not recognised a loss allowance for financial instruments which are fully secured against cash collaterals.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

As at 31 March 2023

	Maximum exposure to credit risk	Net collateral value	Net exposure
Cash and cash equivalents	5,345,364,167	-	5,345,364,167
Balances with Central Bank of Sri Lanka	5,927,046,529	-	5,927,046,529
Placements with financial institutions	19,129,513,793	-	19,129,513,793
Loans and advances to customers	7,168,523,424	6,597,276,587	571,246,837
Debt and other instruments	260,000,000	-	260,000,000
Financial assets measured at fair value through other comprehensive income	530,000	-	530,000
	37,830,977,913	6,597,276,587	31,233,701,326

As at 31 March 2022

	Maximum exposure to credit risk	Net collateral value	Net exposure
Cash and cash equivalents	4,933,967,383	-	4,933,967,383
Balances with Central Bank of Sri Lanka	9,283,299,968	-	9,283,299,968
Placements with financial institutions	14,171,082,690	-	14,171,082,690
Loans and advances to customers	21,364,051,213	20,208,062,682	1,155,988,531
Debt and other instruments	259,996,172	-	259,996,172
Financial assets measured at fair value through other comprehensive income	1,668,710,573	-	1,668,710,573
	51,681,107,999	20,208,062,682	31,473,045,317

The Bank has not recognised a loss allowance for financial instruments which are fully secured against cash collaterals.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.5 Market risk

Introduction

Market Risk is the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in market interest, currency exchange rates, equity & commodity prices. The associated market risks and measurement techniques are given below.

The Bank is exposed to Market Risk because of positions held in its trading portfolio (Trading Book) as well as their non-trading business including the treasury operations (Banking Book). SBI SL's market risk arises mainly from non-trading portfolio (Banking Book) since trading book is negligible and consists only limited forex exposures. Exposure to market risk arises mainly from Interest Rate Risk and Forex risk as the Bank has negligible exposure to commodity related price risk and equity price risk.

Bank has a comprehensive market risk management policy and limit management framework. Bank monitors market risk against various limits, risk assessments and Management Action Triggers (MATs). Bank use Value at Risk, sensitivity analysis and stress testing on open positions, mark to market on daily basis to identify the exposure at risk.

Treasury plays an important role in managing both banking/ trading book and asset and liability position of the Bank and duties are segregated in line with the best practices in to front office, middle office and back office. Treasury Middle Office (TMO) ensures that the treasury front office deals within its limits set out as per Bank's risk appetite treasury back office reconciles and escalates key issues promptly.

The TMO of Risk Department independently measures, monitors and reports on market risk exposures using market risk dashboards and assists in review of the Bank's market risk related policies and exposure limits supporting ALCO for decision making. ALCO manages market risk exposures and profitability ensuring that risks taken are commensurate with the rewards and managed within the risk appetite of the Bank. The Risk Management Committee is responsible for setting up policies and other standards for managing market risk.

SBI SL has adopted the Standardized Measurement Method (SMM) for calculation of the Market Risk capital charge.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.5 Market risk (contd)

36.5.1 Interest Rate Risk

Interest Rate Risk (IRR) arises due to the difference in re-pricing of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL), which will have an impact on the future income and expenses and its economic value.

SBI SL manages the above risk using following tools / methodologies.

- Maturity Gap Analysis, where the interest sensitive assets (RSA) and liabilities (RSL) are categorized under different time buckets and the impact on Net Interest Income for a determined change in rate movement is assessed in the short term, i.e. up to one year.
- Bank has adopted the Modified Duration Gap approach for analyzing the changes in Economic Value of Equity, which requires the mapping of assets and liabilities into different time buckets based on their Maturity.

The Bank's tolerance limits, in respect of gaps for re-pricing maturity time buckets are not breached during the year under review. Also, SBI Sri Lanka's duration of assets is more than the duration of liabilities thereby implying that the assets are more sensitive to changing interest rates than liabilities. As per the modified duration calculations, drop in economic value of equity for a 200 basis point change in interest rate are within the prudential tolerance limits.

Periodical stress testing are performed to assess the impact on sudden rate movements on the portfolio.

ALCO has been delegated with powers to decide the interest rate on deposits and benchmark lending rate or base rate on advances. RCOM has also been delegated with powers to recommend various risk parameters to manage the interest rate risk like prudential limit for rate sensitive gaps, earnings at risk limits, and duration of investment portfolio etc.

Interest Rate sensitivity gap analysis as at 31 March 2023

	Total Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2 Years	2 Years - 3 Years	3 Years - 5 Years	5 5 Years - 10 Years	Over 10 Years	Not exposed to interest rate risk
Financial assets	37,830,977,913	17,407,144,560	7,155,534,448	6,997,981,283	3,816,084,262	345,483,638	345,483,638	412,488,711	88,069,517	55,548,570	1,207,159,286
Cash and cash equivalents	5,345,364,167	4,502,034,246	-	-	-	-	-	-	-	-	843,329,921
Balances with Central Bank of Sri Lanka	5,927,046,529	5,565,250,416	-	-	-	-	-	-	-	-	361,796,113
Placements with financial institutions	19,129,513,793	4,056,494,816	5,220,657,723	6,568,131,156	3,284,230,098	-	-	-	-	-	-
Financial assets at amortised cost	260,000,000	-	-	-	260,000,000	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	530,000	-	-	-	-	-	-	-	-	530,000	-
Net loans and advances to customers	7,168,523,424	3,283,365,082	1,934,876,725	429,850,127	271,854,164	345,483,638	345,483,638	412,488,711	88,069,517	55,018,570	2,033,252
Financial liabilities	18,560,974,985	4,333,719,572	1,277,809,688	1,581,498,730	2,604,436,454	64,734,917	-	-	-	-	8,698,775,524
Due to banks	999,070,953	-	-	-	-	-	-	-	-	-	999,070,953
Due to customers	15,104,072,704	1,875,888,344	1,277,809,688	1,581,498,730	2,604,436,454	64,734,917	-	-	-	-	7,699,704,571
Other borrowings	2,457,831,328	2,457,831,328	-	-	-	-	-	-	-	-	-
Total Interest Rate sensitivity gap		13,073,424,888	5,877,724,760	5,416,482,553	1,211,647,808	280,748,721	345,483,638	412,488,711	88,069,517	55,548,570	(7,491,616,238)



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.5 Market risk (contd)

2023	
Increase/ (decrease) in Interest Rate	Sensitivity to profit before tax Rs.
Rates moving up by 1%	140,603,515
Rates moving up by 2%	210,905,273
Rates moving up by 2.5%	281,207,030
Rates moving down by 1%	(140,603,515)
Rates moving down by 2%	(210,905,273)
Rates moving down by 2.5%	(281,207,030)

Interest Rate sensitivity gap analysis as at 31 March 2022

	Total Rs.	< 1 Month	1- 3 Months	3-6 Months	6 Months - 1 Year	1 Year - 2 Years	2 Years - 3 Years	3 Years - 5 Years	5 5 Years - 10 Years	Over 10 Years	Not exposed to interest rate risk
Financial assets	51,681,107,999	27,364,105,981	14,842,225,310	535,996,315	4,671,272,081	760,660,187	760,660,187	284,264,230	88,978,415	530,000	2,372,415,291
Cash and cash equivalents	4,933,967,383	2,918,699,410	-	-	-	-	-	-	-	-	2,015,267,973
Balances with Central Bank of Sri Lanka	9,283,299,968	8,928,593,750	-	-	-	-	-	-	-	-	356,706,218
Placements with financial institutions	14,171,082,690	4,703,363,109	5,961,319,618	-	3,506,399,963	-	-	-	-	-	-
Financial assets at amortised cost	259,996,172	-	-	-	259,996,172	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	1,668,710,573	-	1,668,180,573	-	-	-	-	-	-	530,000	-
Net loans and advances to customers	21,364,051,213	10,815,449,712	7,212,725,119	535,996,315	904,875,946	760,660,187	760,660,187	284,264,230	88,978,415	-	441,100
Financial liabilities	36,167,508,475	12,153,328,281	5,530,224,844	590,015,255	2,499,437,094	-	-	-	-	-	15,394,503,001
Due to banks	949,473,581	-	-	-	-	-	-	-	-	-	949,473,581
Due to customers	20,484,867,856	1,933,029,468	1,017,356,619	590,015,255	2,499,437,094	-	-	-	-	-	14,445,029,420
Other borrowings	14,733,167,038	10,220,298,813	4,512,868,225	-	-	-	-	-	-	-	-
Total Interest Rate sensitivity gap		15,210,777,700	9,312,000,466	(54,018,940)	2,171,834,987	760,660,187	760,660,187	284,264,230	88,978,415	530,000	(13,022,087,710)

The following table demonstrates the sensitivity of the Bank's income statement to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

2022	
Increase/ (decrease) in Interest Rate	Sensitivity to profit before tax Rs.
Rates moving up by 1%	129,329,093
Rates moving up by 2%	172,438,790
Rates moving up by 2.5%	215,548,488
Rates moving down by 1%	(129,329,093)
Rates moving down by 2%	(172,438,790)
Rates moving down by 2.5%	(215,548,488)



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.5 Market risk (contd)

36.5.1 Foreign exchange risk

The Risk that the Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in any foreign currency. Risk identification covers daylight, overnight, forward positions and also structural positions of the Bank. Overnight position is the position that the Bank maintains in a particular currency at the end of the day's operations. Daylight position is the position that the Bank maintains in any currency at any point of time, during the day. It is measured using Value at Risk, sensitivity analysis and stress testing on open positions against approved limits.

Foreign exchange risk management

Treasury team is in charge of managing foreign exchange risk. Holding assets and obligations in currencies other than the local currency exposes the banking book to foreign exchange risk. The Head Office and the Central Bank of Sri Lanka have established requirements for the monitoring of the Foreign Exchange Exposure Limit (FEEL) and Net Open Position, which are being met.

Foreign exchange risk in Net Open Position (NOP)

Following table indicates Bank's exchange rate risk exposures based on the NOP Position in the foreign currency assets and liabilities by 31 March 2023. Bank carried an "Overbought" position of USD 1.17 Mn. The impact of Exchange risk could be given as follows.

	2023	2022
Net exposures (USD)	1,168,873	1,391,365
Value of the position in LKR (000)	383,001	406,279
Exchange Rate (USD/LKR) as of 31 March	327.67	292.00
Possible potential gain/(loss) to the Bank		
- If exchange rate Depreciated by 10% - LKR 000	38,300	40,628
- If exchange rate Depreciated by 15% - LKR 000	57,450	60,942
- If exchange rate Depreciated by 20% - LKR 000	76,600	81,256

36.5.2 The aggregate net foreign exchange gains/losses recognised in profit or loss were:

	2023	2022
Net foreign exchange gain/(loss) included in other gains/(losses)	476,978,895	350,565,740
Exchange losses on foreign currency borrowing included in finance costs	-	-
Total net foreign exchange (losses) recognised in profit before income tax for the period	476,978,895	350,565,740

36.6 Liquidity risk

Introduction

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of the Bank. For liquidity management, the Bank currently follows a combination of the stock approach and the flow approach. Under the stock Approach, certain standard ratios are computed and prudential limits are set for standard ratios. In addition to the key ratios monitored under stock approach, bank monitors liquidity risk in bank's balance sheet via prudential liquidity ratios defined by the regulators, i.e. Statutory Liquid Asset Ratio (SLAR), Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) etc. Under the Flow approach, Bank conducts gap analysis in two methods viz. behavioural and actual. In the actual method, SBI SL considers contractual residual maturity of assets and liabilities. Under behavioural analysis, 'assets & liabilities are categorized according to the behavioural study'. The maturity gap limits are calculated and monitored against both negative and positive gap limits.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.6 Liquidity risk (contd)

36.6.1 Analysis of financial assets and liabilities by remaining contractual maturities

As at 31 March 2023	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2023
	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash and cash equivalents	5,349,432,660	-	-	-	5,349,432,660
Balances with Central Bank of Sri Lanka	5,931,547,364	-	-	-	5,931,547,364
Placements with financial institutions	-	9,322,182,996	10,194,093,316	-	19,516,276,312
Financial assets at amortised cost	-	-	313,560,000	-	313,560,000
Financial assets measured at fair value through other comprehensive income	-	-	-	530,000	530,000
Loans and advances to customers	57,105,226	5,305,513,870	740,234,662	1,503,591,806	7,606,445,564
Other financial assets	-	15,970,993	-	21,583,338	37,554,331
Total financial assets	11,338,085,250	14,643,667,859	11,247,887,978	1,525,705,144	38,755,346,231



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.6 Liquidity risk (contd)

36.6.1 Analysis of financial assets and liabilities by remaining contractual maturities (contd)

Liabilities

Due to banks	999,070,953	-	-	-	999,070,953
Due to customers	8,917,158,097	1,748,376,707	4,541,823,395	79,918,770	15,287,276,969
Other borrowings	2,458,493,488	-	-	-	2,458,493,488
Other liabilities	201,064,036	85,308,327	-	-	286,372,363
Lease liability	-	914,239	-	23,444,690	24,358,929
Total financial liabilities	12,575,786,574	1,834,599,273	4,541,823,395	103,363,460	19,055,572,702

As at 31 March 2022

	On Demand (less than 15 Days)	15 Days to 3 Months	3 Months to 12 Months	Over 1 Year	Total 2022
Assets	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	4,933,967,383	-	-	-	4,933,967,383
Balances with Central Bank of Sri Lanka	9,283,299,968	-	-	-	9,283,299,968
Placements with financial institutions	3,069,511,997	7,595,170,730	3,506,399,963	-	14,171,082,690
Financial assets at amortised cost	-	-	259,996,172	-	259,996,172
Financial assets measured at fair value through other comprehensive income	-	1,668,180,573	-	530,000	1,668,710,573
Loans and advances to customers	10,815,890,812	7,212,725,119	1,440,872,262	1,894,563,020	21,364,051,213
Other financial assets	-	34,394,879	-	24,842,845	59,237,724
Total financial assets	28,102,670,160	16,510,471,301	5,207,268,397	1,919,935,865	51,740,345,723

Liabilities

Due to banks	949,473,581	-	-	-	949,473,581
Due to customers	16,378,058,888	1,017,356,619	3,089,452,349	-	20,484,867,856
Other borrowings	10,220,298,813	4,512,868,225	-	-	14,733,167,038
Other liabilities	217,883,900	96,175,883	-	-	314,059,783
Lease liability	-	1,275,077	3,825,232	20,172,859	25,273,168
Total financial liabilities	27,765,715,182	5,627,675,804	3,093,277,581	20,172,859	36,506,841,426

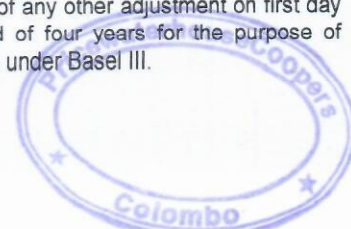
36.7 Capital management

Qualitative disclosures

Capital adequacy ratio (CAR) is calculated based on the Central Bank of Sri Lanka (CBSL) directions stemming from Basel III accord. These guidelines require the Bank to maintain a CAR not less than 8.5% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 12.5% in relation to total risk weighted assets.

Tier 1 Capital – Core Capital

This includes assigned capital, statutory reserve fund, published retained profits, accumulated other comprehensive income, general and other reserves. The assigned capital is the amount provided by SBI India to conduct its operation in Sri Lanka. In order to avoid stress on capital and in line with the guidance given by the Basel Committee on Banking Supervision, licensed banks can stagger audited additional credit loss provisions arising from SLFRS 9 when compared with credit loss provisions under LKAS 39 as at first day of adoption of SLFRS 9, net of any other adjustment on first day impact to retained earnings and net of tax effects, throughout a transitional period of four years for the purpose of calculating CAR under Banking Act Directions No. 01 of 2016 on Capital Requirements under Basel III.



STATE BANK OF INDIA - SRI LANKA BRANCH

Notes to the financial statements (contd)

36 Risk management (contd)

36.7 Capital management

Tier 2 Capital – Supplementary capital

Revaluation gains and general provision are the only constituents of supplementary capital for the Branch. As per the CBSL regulations a prudential revaluation is done reflecting the full possibility of price fluctuations and forced sale, with prior approval from CBSL, which is then subject to a discount of 50%. According to explanatory note no. 03 of 2019 on interpretations of Banking Act Directions no.01 on capital requirements under Basel III for licensed commercial banks and licensed specialized banks; general provisions consist of impaired assets from stage 1 and 2 on the proportion of 100% and 50% respectively. This is subject to 1.25% of risk weighted assets on credit risk under the standardized approach shall be applicable for Tier 2 capital.

Quotative disclosures

Please refer to the other information for quantitative disclosures.

36.8 Reputation Risk

Reputation risk refers to the potential adverse effects which can arise from the Bank's reputation being tarnished due to factors such as unethical practices, regulatory actions, customer dissatisfaction, complaints, and adverse publicity, unable to meet obligations.

The Bank remains committed to continuously strive to maintain and improve its reputation in all the businesses it operates. Reputation Risk Management Framework has been developed for enhanced Reputation Risk Management in the Bank. Reputation Risk Events within the bank, there would be a two tier reporting structure for assessment and reporting of events. As part of this, Reputation Risk Working Group (RRWG) comprising senior officials, has been constituted for centralized and regular review of reputation risk related incidents in the Bank.

Compliance Risk

SBI SL has robust policy and processes for management of compliance risk and has a well-functioning compliance department to manage compliance aspects on a day to day basis. SBI SL is within the compliance risk appetite set i.e. "Amount of regulatory fines and penalties paid with respect to non-compliance with laws, standards, clauses, and statutes applicable to the functioning of the Bank". No incidences have been observed with regard to the regulatory fines and penalties paid with respect to non-compliance with laws, standards, clauses, statutes applicable to the functioning of the Bank for the year ended 31.03.2023.

37 Capital structure

SBI SL has not issued any capital instruments and capital is supported by Head office in the form of Assigned Capital.

38 Commitments and contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

38.1 Legal claims

The Company receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is, the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions. All such pending legal cases is disclosed in note 36.4.1.



STATE BANK OF INDIA - SRI LANKA BRANCH**Notes to the financial statements (contd)****39 Events after the reporting date****Adverse movement on the foreign exchange rate on or after the reporting date**

Financial assets and financial liabilities in foreign currencies are disclosed in the note 36.5.1 will be realised and settled as at 28 June 2023 at exchange rate of USD to LKR at 307.60 due to the fluctuations in the foreign exchange rates after 31 March 2023. Hence the net foreign currency assets of LKR 383.00 Mn that is exposed to foreign currency fluctuation at the financial year-end would decrease to net foreign currency assets of LKR 359.55 Mn resulting in a net exchange loss for the year ended 31 March 2023 amounting to LKR 23.46 Mn, if it were valued at the 28 June 2023 exchange rate. Exchange rate fluctuations occurred after the balance sheet date is not adjusted in the current year financial statements since the conditions that gave rise to the gain/(loss) did not exist as at 31 March 2023.

	2023	2022
Net exposures (USD)	1,168,873	1,391,365
Value of the position in LKR (000)	359,546	500,752
Exchange Rate (USD/LKR) as of 28 June	307.60	359.90

The aggregate net foreign exchange gain to be recognised in profit would be

Exchange Rate (USD/LKR) as of 31 March	327.67	292.00
Effect on change of exchange loss	(23,455)	94,474

Impact of declining interest rates

The Monetary Board of the Central Bank of Sri Lanka has reduced the policy rates by 450 basis points from April to July taking into account the faster than expected disinflation process and with a view of stimulating the economy and easing pressure on financial markets. Consequently, the positive gap between the interest earning assets and liabilities would result in a negative impact on the interest income of the branch.

Impact on accounting estimates and judgements in reporting

The management of the branch continues to monitor the potential impact to the continuity of the business. Accordingly, macroeconomic variables are evaluated while making assumptions and judgments when preparing financial statements.

Going concern assessment

Branch has performed a going concern assessment in light of recent economic crisis and found that there are no indications foreseeable which will impair the ability of company's' going concern.



STATE BANK OF INDIA - SRI LANKA BRANCH

Key Regulatory Ratios - Capital and Liquidity

Item	31-Mar-23	31-Mar-22
Regulatory Capital (LKR '000)		
Common Equity Tier 1	13,900,953	15,466,626
Tier 1 Capital	13,900,953	15,466,626
Total Capital	14,022,360	15,617,037
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (<i>Minimum Requirement-7%</i>)	40.17%	36.00%
Tier 1 Capital Ratio (<i>Minimum Requirement - 8.5%</i>)	40.17%	36.00%
Total Capital Ratio (<i>Minimum Requirement - 12.5%</i>)	40.53%	36.35%
Leverage Ratio (<i>Minimum Requirement - 3%</i>)	27.15%	18.96%
Regulatory Liquidity		
Statutory Liquid Assets (LKR'000)	14,126,207	14,840,641
Statutory Liquid Assets (USD'000)	47,771	67,742
Statutory Liquid Assets Ratio (<i>Minimum Requirement -20%</i>)		
Domestic Banking Unit (%)	76.11%	114.89%
Off-Shore Banking Unit (%)	79.27%	103.93%
Liquidity Coverage Ratio (%) – Rupee (<i>Minimum Requirement -100%</i>)	3,769.06%	2,058.61%
Liquidity Coverage Ratio (%) – All Currency (<i>Minimum Requirement - 100%</i>)	438.05%	313%



STATE BANK OF INDIA - SRI LANKA BRANCH

Basel III Computation of Capital Ratios

Item	Period 31.03.2023	Period 31.03.2022
Common Equity Tier 1 (CET1) Capital after Adjustments- LKR '000	13,900,953	15,466,626
Common Equity Tier 1 (CET1) Capital	18,691,785	15,487,150
Equity Capital (Stated Capital)/Assigned Capital	2,442,827	2,442,827
Reserve Fund	551,929	450,954
Published Retained Earnings/(Accumulated Retained Losses)	10,052,783	7,965,221
Published Accumulated Other Comprehensive Income (OCI)	-	-
General and other Disclosed Reserves	5,644,246	4,628,148
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to CET1 Capital	4,790,832	20,524
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Deferred tax assets (net)	26,704	34,266
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	(18,978)	(13,742)
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	4,783,106	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the	-	-
Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	121,407	150,411
Tier 2 Capital	121,407	150,411
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	121,407	150,411
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by third parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
CET1 Capital	-	-
Total Tier 1 Capital	13,900,953	15,466,626
Total Capital	14,022,360	15,617,037

